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ZNY CCCCC
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FM JOINT STAFF WASHINGTON DC
INFO RUEADWD/OCSA WASHINGTON DC
RUEAHQA/CSAF WASHINGTON DC
RUCGDEF/NATS PENTAGON WASHINGTON DC
RUEADWD/PTC WASH DC
RUEADTS/USDP:DTSA
RUEOACC/CDRPSYOPGP FT BRAGG NC//AORC-POG-SB//
RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL
RUEOFAA/COMJSOC FT BRAGG NC//J2//
RULKQAN/MARCORINTCEN QUANTICO VA
RULSJGA/COGARD INTELCOORDCEN WASHINGTON DC
RULKNIS/COMNISCOM WASHINGTON DC//NAVATAC//
RUEALGX/SAFE
R 071340Z OCT 92
FM AMCONSUL JEDDAH
TO RUEHC/SECSTATE WASHDC 1320
INFO RUEHZM/GCC COLLECTIVE
RUFHLD/AMEMBASSY LONDON 6968
RUFHFR/AMEMBASSY PARIS 3946
RUFHBG/AMEMBASSY LUXEMBOURG 0052
RUEATRS/TREASURY WASHDC
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DEPARTMENT OF STATE IS/FPC/CDR DRP Date 9/8/9
( ) RELEASE ( ) DECLASSIFY
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FOIA Exemptions B1, B4
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( ) CLASSIFY as ( ) S or ( ) C O
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CONTROLS
C O N F I D E N T I A L SECTION 01 OF 03 JEDDAH 01883

E.O. 12356: DECL: OADR

/********** THIS IS A COMBINED MESSAGE **********/
BODY
TAGS: EFIN, ECON, PINR, EINV, SA
SUBJECT: DARK CLOUDS: UPDATE ON THE NATIONAL COMMERCIAL
-- BANK/BCCI INVESTIGATION

REF: (A) JEDDAH 1128, (B) RIYADH 4545, (C) RIYADH 6927
-- (D) DHAHRAN 1420

1. (C - ENTIRE TEXT).

SUMMARY AND COMMENT
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2. AS MISSION REPORTING HAS DETAILED OVER THE PAST YEAR, THE INVOLVEMENT OF THE JEDDAH-BASED NATIONAL COMMERCIAL

BANK (NCB) -- ONE OF THE FINANCIAL PILLAR'S OF THE SAUDI ECONOMY -- IN THE BCCI SCANDAL HAS SHAKEN CONFIDENCE IN THE INSTITUTION AND DISRUPTED THE BANK'S HERETOFORE LARGE-SCALE DEALINGS IN THE U.S. SPECIFIC CHARGES AGAINST KHALID BIN MAHFOUZ -- A LEADING MEMBER OF THE PROMINENT JEDDAH FAMILY WHICH HOLDS CONTROLLING SHARES IN THE PRIVATELY-OWNED NCB AND WHO WAS THE BANK'S ACTING GENERAL MANAGER UNTIL THIS SUMMER -- CAUSED A CERTAIN LOSS OF CONFIDENCE IN NCB.

3. DESPITE THE BANK'S ALLEGED US DOLS 25 BILLION IN ASSETS AND THE REPUTED CONFIDENCE OF MOST OF THE JEDDAH MERCHANT PRINCES IN THE BANK'S OVERALL WELL-BEING, EVEN A RESURGENT LOCAL ECONOMY AND THE CURRENT BUOYANCY OF DOMESTIC BANKING MAY NOT BE ENOUGH TO SOLVE ALL OF NCB'S PROBLEMS. NOT ONLY HAVE ITS OPERATIONS IN THE U.S. BEEN CRIMPED, BUT MUCH REMAINS TO BE SORTED OUT REGARDING THE BANK'S LIABILITY FOR SOME OF BCCI'S BAD DEBTS.

B1

IT APPEARS CERTAIN THAT IT WILL BE SOME TIME BEFORE THE BANK REGAINS THE UNQUESTIONED FINANCIAL HEALTH AND THE PUBLIC AND INTERNATIONAL CONFIDENCE WHICH MADE IT INTO THE KINGDOM'S LARGEST BANK.

4. THIS SAID, WE ARE DEVELOPING THE VIEW THAT NCB HAS WEATHERED THE INITIAL SHOCK OF THE BCCI INDICTMENTS. SAUDI ARABIA MONETARY AGENCY (SAMA) OFFICIALS CONTINUE TO MONITOR NCB'S BCCI-RELATED PROBLEMS CLOSELY. THEY ARE ALSO LOOKING AT THE DEGREE OF COORDINATION THE USG EXERCISES WITH SAUDI ARABIA IN PROSECUTING THE CASE. IN THIS RESPECT, A RECENT TRIP TO THE KINGDOM BY FEDERAL RESERVE COUNSELS WAS VERY POSITIVE IN MENDING FENCES WITH IMPORTANT SAMA OFFICIALS. END SUMMARY AND COMMENT

CONTINUING PROBLEMS FOR KHALID BIN MAHFOUZ

5. AS IS WELL KNOWN, THE JEDDAH-BASED NATIONAL COMMERCIAL BANK (NCB) IS THE LARGEST BANK IN THE KINGDOM.

B1

6. KHALID BIN MAHFOUZ HAS BEEN NCB'S ACTING GENERAL MANAGER FOR THE PAST DECADE.

B1

IN HIS EARLY/MID-40'S, HE APPEARED TO MANAGE NCB VERY COMPETENTLY. HOWEVER, IT IS NOW ALLEGED THAT HE ENGAGED IN MANY UNSAVORY, AND POSSIBLY ILLEGAL, TRANSACTIONS WHICH NOT ONLY HAVE SHAKEN

CONFIDENCE IN NCB, BUT WILL PROBABLY HAVE SERIOUS REPERCUSSIONS ON THE BANK'S ROLE AND STATUS IN THE FUTURE.

NCB'S "FIRST AMERICAN" CONNECTION

7. SPECIFICALLY, KHALID BIN MAHFOUZ, ONE OF HIS SENIOR ASSOCIATES AT NCB, AND THE BANK ITSELF, ARE ALL CHARGED BY U.S. AUTHORITIES, WITH ILLEGALLY ACQUIRING 30 PERCENT OF FIRST AMERICAN BANK. THEY ARE ACCUSED OF DOING THIS BY LENDING US DOLS 250 MILLION TO NOMINEES WHO BOUGHT STOCK IN FIRST AMERICAN USING THE PURCHASED STOCK AS COLLATERAL FOR THE LOANS. THE NOMINEES ARE ALLEGED TO HAVE INTENTIONALLY DEFAULTED ON TWO LOANS. IN ADDITION, NCB OBTAINED THE STOCK WITHOUT FEDERAL RESERVE APPROVAL

/****** BEGINNING OF SECTION 002 ******/
AND IN VIOLATION OF THE BANK HOLDING COMPANY ACT AND OTHER BANKING REGULATIONS.

8. IT ALSO APPEARS THAT NCB, WHICH ONCE OWNED 30 PERCENT OF BCCI, HELPED TAKE BAD LOANS OFF OF BCCI'S BOOKS. NCB ALLEGEDLY LENT FUNDS TO BCCI'S DEFAULTING CLIENTS WHO USED THE NEW LOAN FROM NCB TO PAY OFF THEIR OLD LOAN FROM BCCI.

9. IN ALL OF THIS, THE DISTINCTION BETWEEN KHALID BIN MAHFOUZ AND NCB IS BLURRED, AT BEST. WHAT IS KNOWN IS THAT NCB'S TOTAL EXPOSURE AND POTENTIAL LOSS IN THIS WEB OF MISDEALINGS COULD EXCEED US DOLS ONE BILLION -- NOT POCKET MONEY EVEN FOR BIN MAHFOUZ AND THE KAAKI FAMILY WHO SHARE THE OWNERSHIP OF THE BANK.

10.

B1

U.S. PENALTIES BITE HARD

11. THE SHENANIGANS OF NCB AND BIN MAHFOUZ WERE SUFFICIENTLY SERIOUS THAT THE USG REPORTEDLY COULD HAVE FROZEN ALL THE ACTIVITIES OF NCB IN THE U.S. THIS WOULD HAVE BEEN DISASTROUS FOR A DOLLAR-BASED BANK LIKE NCB, WHICH STILL HAS EXTENSIVE DEALINGS WITH U.S. BANKS DESPITE THE CLOSURE OF ITS NEW YORK OFFICE. (ITS LONDON AND, WE UNDERSTAND, LUXEMBOURG OFFICES HAVE BEEN CLOSED, AS WELL.) IN ORDER TO AVOID THIS DISRUPTION, IT WAS DECIDED TO ACCEPT THE DEPARTURE OF KHALID BIN MAHFOUZ FROM THE BANK AS AN ADEQUATE SIGN OF NCB'S WILLINGNESS TO COOPERATE WITH THE STILL ONGOING INVESTIGATIONS. IT IS NOT KNOWN WHERE THESE INVESTIGATIONS WILL LEAD. HOWEVER, THE ISSUES INVOLVED ARE SUFFICIENTLY SENSITIVE THAT THEY COULD IMPACT FURTHER ON U.S.-SAUDI RELATIONS AT SOME POINT IN THE FUTURE.

FINES, PENALTIES AND BARGAINING CONTINUES

12. MEANWHILE, IT IS UNDERSTOOD THAT SOME US DOLS 40 MILLION WORTH OF PERSONAL BIN MAHFOUZ ASSETS HAVE BEEN FROZEN IN THE U.S. TO HELP COVER THE COST OF THE US DOLS 170 MILLION FINE ALREADY ASSESSED ON KHALID. LAWYERS FOR THE FAMILY HAVE OFFERED TO POST A BOND OF US DOLS 100 MILLION IF THIS PRYING INTO BIN MAHFOUZ'S AFFAIRS IS ENDED. THEIR OFFER WAS REPORTEDLY DECLINED, AND THE SEARCH FOR MORE ASSETS TO COVER THE REMAINDER OF THE FINE CONTINUES.

13. THE BIN MAHFOUZ FAMILY HAS RETAINED THEIR THIRD TEAM OF LAWYERS, THIS TIME A GROUP OF "SETTLEMENT SPECIALISTS" WHICH SUGGESTS THAT THE FAMILY WANTS THE ENTIRE MESS WRAPPED UP AS SOON AS POSSIBLE. A FURTHER PROBLEM MAY BE THE FINES TO BE LEVIED AGAINST NCB AS DISTINCT FROM THE US DOLS 170 MILLION TO BE PAID BY KHALID BIN MAHFOUZ PERSONALLY. THIS SUM COULD BE STAGGERING IN SIZE, AS WELL.

CRIMINAL PROCEEDINGS ALSO POSSIBLE

/****** BEGINNING OF SECTION 003 ******/
14. IN ADDITION TO CIVIL PENALTIES, BIN MAHFOUZ FACES CRIMINAL CHARGES IN THE STATE OF NEW YORK. IF BROUGHT TO TRIAL AND CONVICTED, THE PENALTIES AGAINST BIN MAHFOUZ COULD RANGE FROM A FINE OF ONLY A FEW THOUSAND DOLLARS TO A PRISON TERM OF UP TO FIVE YEARS AND A MUCH LARGER SUM

OF MONEY. COMPLICATING HIS PREDICAMENT IS THE FACT THAT BIN MAHFOUZ HAS NOT APPEARED IN NEW YORK TO FACE THE CHARGES. UNTIL HE DOES, HE IS DEEMED A FUGITIVE AND THUS COULD EVENTUALLY LOSE HIS CIVIL, THOUGH NOT HIS CRIMINAL CASE, BY DEFAULT.

15. SAMA OFFICIALS CONTINUE TO MONITOR THE CASE CLOSELY, A FUNCTION IN PART OF THEIR MANDATE TO DEFEND THE SAUDI BANKING SYSTEM. HOWEVER, THEY ARE ALSO LOOKING AT THE DEGREE OF COORDINATION THE USG EXERCISES WITH SAUDI ARABIA IN PROSECUTING THE CASE. IN THIS RESPECT, A RECENT TRIP BY TWO FEDERAL RESERVE COUNSELS WAS VERY POSITIVE IN MENDING FENCES WITH IMPORTANT SAMA OFFICIALS.

IMPACT ON THE DOMESTIC BANKING SECTOR

16. WE ARE DEVELOPING A VIEW, [redacted] B1
THAT NCB HAS WEATHERED THE INITIAL SHOCK OF THE INDICTMENTS. IT IS CLEAR, MOREOVER, THAT THE OVERALL HEATLH OF THE SAUDI BANKING SECTOR REMAINS BUOYANT (SEE REF C). B1

[redacted] FOR EXAMPLE, INDICATED [redacted] B1
THAT NCB'S WEATHERING THE WORST OF THE BCCI SCANDAL STORM, AT LEAST AS FAR AS ITS STANDING WITHIN THE KINGDOM IS CONCERNED, WAS LARGELY A FUNCTION OF THE DOMESTIC ECONOMIC BOOM, SURPLUS PRIVATE LIQUIDITY, AND LOW U.S. INTEREST RATES.

17. [redacted] B1
EXPRESSED SIMILAR SENTIMENTS IN SEPTEMBER MEETINGS WITH THE CHARGE. IT IS THE CONSENSUS AMONG MID-LEVEL BANKERS HERE THAT WHILE NCB INITIALLY LOST SOME ASSETS, [redacted] ITS FINANCIAL POSITION HAS LARGELY STABILIZED AND DOMESTIC BANKING BUSINESS AT NCB AND THE OTHER BANKS HAS PRETTY MUCH RETURNED TO NORMAL. B4

18. THIS MESSAGE WAS COORDINATED WITH THE EMBASSY AND WITH CONGEN DHAHRAN. HAMBLEY

ADMIN
BT

#8522

NNNN